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Central Intelligence Agency

Washington, D.C. 20505

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DIRECTORATE OF INTELLIGENCE

17 September 1984

ISRAEL: Alternative Economic Policies

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Summary

[redacted] we ran five scenarios to measure the impact of various policies on Israel's economic performance. Constraining domestic demand would improve the civilian goods and services deficit compared with current trends, but the deficit would still be at least \$1.3 billion more in 1987 than last year's \$4.0 billion. The cost would be higher unemployment--reaching 9.2 percent in 1987 in one scenario--and slower economic growth.

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Baseline Scenario. Our baseline forecast assumes the continuation of current economic trends. Private consumption, fueled by real wage increases of 4 percent a year, would continue to grow at high rates, helping to produce GNP growth averaging 3 percent a year. Total government consumption is assumed to increase by an average of almost 4 percent a year, with most of the increase coming from military spending. The economies of Israel's major trading partners are assumed to grow at an average annual rate of 2.8 percent.

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Scenario 1. In this scenario, we assumed real wages decline 5 percent in 1985 and 1986, and remain constant in 1987. Private consumption falls by almost one percentage point compared with the baseline, causing GNP growth to decrease by 0.4 percentage

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This memorandum was prepared [redacted] of the Israel/Palestinian Branch, Arab-Israeli Division, Office of Near Eastern and South Asian Analysis. It was requested by Russell Misheloff, Deputy Director, Office of Middle East and European Affairs. Information as of 17 September 1984 was used in its preparation. Questions and comments should be directed to Chief Arab-Israeli Division, [redacted]

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point, and increasing the unemployment rate to 8.9 percent, 0.4 percentage points above the baseline. The civilian goods and services deficit improves by \$600 million in 1986 and by \$300 million in 1987. The decrease in private consumption would be even more pronounced if the decline in disposable income was not countered by the decline in taxes paid on wages and National Insurance. [redacted]

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Scenarios 2 and 3. We decreased domestic military and nonmilitary spending; in Scenario 2 we assumed a slow decrease of 2 percent a year in 1985-87, and in Scenario 3, a one-time large decrease of 7.5 percent in 1985, and no growth in 1986 and 1987. Economic growth falls from an average of 3.1 percent in the baseline to 2.5 percent with a slow decline in domestic spending and to 2.3 percent with a sharp decline. The unemployment rate is 0.4 and almost 0.7 percentage points higher with a slow decline and a sharp decline, respectively. In both cases, the civilian goods and services deficit improves by about \$300 million by 1987. [redacted]

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Scenario 4. Bank of Israel credit to the private sector was held constant in real terms in 1985-87; in the baseline, the growth in credit is equal to real economic growth. The impact in this scenario is minimal. Private consumption growth is 0.1 percentage points lower, and economic growth and unemployment rate are almost unchanged. The civilian goods and services deficit improves by only \$30 million by 1987. [redacted]

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Scenario 5. The value-added tax was increased by 5 percentage points from 1985 to 1987. Under this scenario, both consumption and investment decline--consumption by 0.6 percentage points and investment by over one percentage point. GNP growth is 0.4 percentage point lower compared with the baseline, and unemployment rises to 8.8 percent. The civilian goods and services deficit improves by \$200 million by 1987. [redacted]

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SUBJECT: ISRAEL: Alternative Economic Policies

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SCENARIO 5: INCREASE IN VAT TAX BY 5 PERC. POINTS 85-87
9/17/84

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ISRAEL
ASSUMED VALUES FOR EXOGENOUS VARIABLES

	1983	1984	1985	1986	1987
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(BILLIONS OF 1980 SHEKELS)

*** GOVERNMENT VARIABLES					
DOMESTIC NONMILITARY EXPEND.	12.84	13.22	13.35	13.49	13.62
PERCENT CHANGE	0.78	3.00	1.00	1.00	1.00
DOMESTIC MILITARY EXPEND.	17.35	17.87	18.23	18.41	18.59
PERCENT CHANGE	6.94	3.00	2.00	1.00	1.00
GOVT RESIDENTIAL INVEST.	1.68	1.65	1.49	1.41	1.34
PERCENT CHANGE	-21.56	-2.00	-10.00	-5.00	-5.00
GOVT NONRESIDENTIAL INVEST.	4.48	4.48	4.26	4.17	4.09
PERCENT CHANGE	8.01	0.00	-5.00	-2.00	-2.00

(BILLIONS OF 1980 SHEKELS)

NET TRANSFERS TO PRIVATE SECT.	20.44	20.44	20.44	20.44	20.44
PERCENT CHANGE	0.00	0.00	0.00	0.00	0.00
NET CREDIT ABSORP. BY GOVT	-25.60	-20.00	-10.00	-5.00	5.00
PERCENT CHANGE	-21.89	-50.00	-50.00	-200.00	
PUBLIC SECTOR WAGES	22.24	23.13	24.06	25.02	26.02
PERCENT CHANGE	4.00	4.00	4.00	4.00	4.00
BOI CREDIT TO PRIVATE SECTOR	6.54	6.70	6.91	7.10	7.26
PERCENT CHANGE	2.42	3.09	2.70	2.35	

(PERCENT)

*** TAX RATES					
DEFENSE IMPORT TAXES	0.20	0.20	0.20	0.20	0.20
INVENTORY SURTAX	-0.01	-0.29	0.12	0.19	0.20
BUSINESS INCOME TAX	0.06	0.06	0.06	0.06	0.06
DOMESTIC PROD. TAX (INCL. VAT)	0.19	0.19	0.24	0.24	0.24
IMPORT TAX	0.20	0.20	0.20	0.20	0.20
NATIONAL INSURANCE TAX	0.13	0.13	0.13	0.13	0.13
WAGE TAX	0.14	0.14	0.14	0.14	0.14
TAXES ON OTHER INCOME	0.13	0.13	0.13	0.13	0.13

(PERCENT CHANGE)

*** BALANCE OF PAYMENTS					
REAL GROWTH IN US AND EC		3.90	3.00	2.00	3.50
DOLLAR PRICE OF IMPORTS	-2.18	3.87	4.85	4.28	7.17
DOLLAR PRICE OF OIL	-13.77	0.00	0.00	0.00	5.20
WORLD INTEREST RATE	9.20	8.80	9.10	8.60	8.60
EXCHANGE RATE (LEVEL)	56.21	228.46	1088.87	5805.33	33261.82

(BILLIONS OF US DOLLARS)

FOREIGN DEBT REPAYMENTS	0.97	1.25	1.45	1.70	1.82
DIRECT DEFENSE IMPORT PAYMENTS	1.27	2.26	2.18	2.07	2.14
DIRECT DEFENSE IMPORTS	1.03	1.76	1.85	2.52	2.89
NET FOREIGN BORROWING BY GOVT.	2.23	2.17	2.05	2.72	3.03
TOTAL GROSS CAP FLOW (NOT FMS)	3.24	5.68	6.24	6.79	7.36
US ECONOMIC ASSISTANCE	1.50	1.10	1.10	1.10	1.10
US FMS	1.00	1.63	1.40	1.40	1.40

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SCENARIO 5: INCREASE IN VAT TAX BY 5 PERC. POINTS 85-87
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ISRAEL

DETAILED COMPONENTS OF REAL GNP

(BILLIONS OF 1980 SHEKELS)

	1983	1984	1985	1986	1987
PRIVATE CONSUMPTION	80.35	83.80	89.22	94.26	98.52
PERCENT CHANGE	7.05	4.30	6.46	5.65	4.52
TOTAL INVESTMENT	27.36	26.60	25.46	23.68	21.61
PERCENT CHANGE	5.92	-2.79	-4.27	-7.02	-8.72
COMPONENTS OF INVESTMENT					
PRIVATE NONRESIDENTIAL	14.58	13.58	12.94	11.32	9.40
PERCENT CHANGE	21.78	-6.88	-4.71	-12.50	-16.95
PRIVATE RESIDENTIAL	6.98	6.40	6.28	6.33	6.36
PERCENT CHANGE	-4.56	-8.30	-1.98	0.86	0.48
SHIPS AND PLANES	0.46	0.51	0.46	0.41	0.39
PERCENT CHANGE	57.92	10.00	-10.00	-10.00	-5.00
PRIVATE INVENTORY	-0.83	-0.02	0.05	0.03	0.03
PERCENT CHANGE	1791.33	-97.58	-350.00	-40.00	0.00
GOVERNMENT NONRESIDENTIAL	4.48	4.48	4.26	4.17	4.09
PERCENT CHANGE	8.01	0.00	-5.00	-2.00	-2.00
GOVERNMENT RESIDENTIAL	1.68	1.65	1.49	1.41	1.34
PERCENT CHANGE	-21.56	-2.00	-10.00	-5.00	-5.00
GOVERNMENT CONSUMPTION	35.38	39.77	40.30	43.44	44.58
PERCENT CHANGE	-4.24	12.39	1.35	7.78	2.62
COMPONENTS OF GOVERNMENT CONSUMPTION					
DOMESTIC NONMILITARY	12.84	13.22	13.35	13.49	13.62
PERCENT CHANGE	0.78	3.00	1.00	1.00	1.00
TOTAL MILITARY	22.56	26.54	26.95	29.95	30.96
PERCENT CHANGE	-6.75	17.64	1.53	11.14	3.35
FOREIGN MILITARY	5.73	9.19	9.23	12.05	12.87
PERCENT CHANGE	-33.54	60.44	0.52	30.53	6.80
DOMESTIC MILITARY	17.35	17.87	18.23	18.41	18.59
PERCENT CHANGE	6.94	3.00	2.00	1.00	1.00
DEFENSE SALARIES	0.51	0.51	0.51	0.51	0.51
PERCENT CHANGE	-20.31	0.00	0.00	0.00	0.00

COMPONENTS OF FOREIGN TRADE SECTOR

EXPORTS	51.38	54.12	56.62	58.43	61.36
PERCENT CHANGE	2.24	5.32	4.62	3.20	5.02
IMPORTS	80.98	88.51	92.25	97.15	100.74
PERCENT CHANGE	5.65	9.30	4.23	5.31	3.70
COMPONENTS OF IMPORTS					
CIVILIAN IMPORTS	62.02	65.79	68.88	71.02	73.43
PERCENT CHANGE	8.62	6.07	4.70	3.11	3.39
SHIPS AND PLANES	0.46	0.51	0.46	0.41	0.39
PERCENT CHANGE	57.92	10.00	-10.00	-10.00	-5.00
DIRECT DEFENSE IMPORTS	4.76	7.63	7.67	10.02	10.70
PERCENT CHANGE	-35.66	60.44	0.52	30.53	6.80
IMPORTS TAXES	13.74	14.58	15.24	15.70	16.22
PERCENT CHANGE	15.80	6.11	4.56	3.00	3.34
NET FACTOR IMPORTS	5.76	5.44	5.61	5.84	5.77
PERCENT CHANGE	12.23	-5.59	3.05	4.13	-1.26

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SCENARIO 5: INCREASE IN VAT TAX BY 5 PERC. POINTS 85-87
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ISRAEL
MAIN ECONOMIC INDICATORS, 1983-1987

(BILLIONS OF 1980 SHEKELS)

	1983	1984	1985	1986	1987
GROSS NATIONAL PRODUCT	107.73	110.31	113.71	116.82	119.56
PERCENT CHANGE	1.34	2.42	3.09	2.70	2.35
GNP DEFLATOR	12.62	53.28	266.25	1480.25	9089.21
PERCENT CHANGE	150.09	322.14	399.73	455.97	514.03
CAPACITY UTILIZATION RATE	90.88	92.47	94.81	96.95	99.02
UNEMPLOYMENT RATE	4.49	5.96	7.01	7.90	8.84
COMPONENTS OF AGGREGATE DEMAND					
PRIVATE CONSUMPTION	80.35	83.80	89.22	94.26	98.52
PERCENT CHANGE	7.05	4.30	6.46	5.65	4.52
TOTAL INVESTMENT	27.36	26.60	25.46	23.68	21.61
PERCENT CHANGE	5.92	-2.79	-4.27	-7.02	-8.72
GOVERNMENT CONSUMPTION	35.38	39.77	40.30	43.44	44.58
PERCENT CHANGE	-4.24	12.39	1.35	7.78	2.62
EXPORTS	51.38	54.12	56.62	58.43	61.36
PERCENT CHANGE	2.24	5.32	4.62	3.20	5.02
IMPORTS	80.98	88.51	92.25	97.15	100.74
PERCENT CHANGE	5.65	9.30	4.23	5.31	3.70
NET FACTOR IMPORTS	5.76	5.44	5.61	5.84	5.77

BALANCE OF PAYMENTS

(BILLIONS OF DOLLARS)

CIVILIAN GOODS AND SERVICES					
EXPORTS	9.95	10.68	11.75	12.73	14.44
OF WHICH: DIAMONDS	1.21	1.39	1.58	1.72	1.99
IMPORTS	13.96	15.22	16.67	17.96	19.87
OF WHICH: FUELS	1.61	1.63	1.67	1.70	1.81
DIAMONDS	0.85	0.98	1.12	1.22	1.42
INTEREST	2.16	2.22	2.42	2.63	2.89
CIVILIAN GOODS AND SERVICES DEFICIT	-4.01	-4.54	-4.93	-5.23	-5.43
DIRECT DEFENSE IMPORTS	1.03	1.76	1.85	2.52	2.89
DEFENSE IMPORT PAYMENTS	1.27	2.26	2.18	2.07	2.14
US FINANCED PAYMENTS	1.00	1.63	1.40	1.40	1.40
NON-US FINANCED IMPORTS	0.27	0.63	0.78	0.68	0.74
DEBT REPAYMENT	0.97	1.25	1.45	1.70	1.82
TOTAL DEBT	23.12	25.99	28.35	31.02	34.12
FINANCIAL GAP	-5.26	-6.12	-7.15	-7.61	-7.99
EXTERNAL FUND	3.24	5.68	6.21	6.79	7.36
OF WHICH US SSA	1.50	1.10	1.10	1.10	1.10
BALANCE	-0.47	-0.74	-0.92	-0.81	-0.64

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SCENARIO 4: NO INCREASE IN REAL BOI CREDIT TO PRIV. SECTOR 85-87
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ISRAEL
ASSUMED VALUES FOR EXOGENOUS VARIABLES

	1983	1984	1985	1986	1987
(BILLIONS OF 1980 SHEKELS)					
*** GOVERNMENT VARIABLES					
DOMESTIC NONMILITARY EXPEND.	12.84	13.22	13.35	13.49	13.62
PERCENT CHANGE	0.78	3.00	1.00	1.00	1.00
DOMESTIC MILITARY EXPEND.	17.35	17.87	18.23	18.41	18.59
PERCLNT CHANGE	6.94	3.00	2.00	1.00	1.00
GOVT RESIDENTIAL INVEST.	1.68	1.65	1.09	1.41	1.34
PERCLNT CHANGE	-21.56	-2.00	-10.00	-5.00	-5.00
GOVT NONRESIDENTIAL INVEST.	4.48	4.48	4.26	4.17	4.09
PERCENT CHANGE	8.01	0.00	-5.00	-2.00	-2.00
(BILLIONS OF 1980 SHEKELS)					
NET TRANSFERS TO PRIVATE SECT.	20.44	20.44	20.44	20.44	20.44
PERCENT CHANGE	0.00	0.00	0.00	0.00	0.00
NET CREDIT ABSORP. BY GOVT	-25.60	-20.00	-10.00	-5.00	5.00
PERCENT CHANGE	-21.89	-50.00	-50.00	-200.00	
PUBLIC SECTOR WAGES	22.24	23.13	24.06	25.02	26.02
PERCENT CHANGE	4.00	4.00	4.00	4.00	4.00
BOI CREDIT TO PRIVATE SECTOR	6.54	6.54	6.54	6.54	6.54
PERCENT CHANGE	0.00	0.00	0.00	0.00	0.00
(PERCENT)					
*** TAX RATES					
DEFENSE IMPORT TAXES	0.20	0.20	0.20	0.20	0.20
INVENTORY SURTAX	-0.01	-0.29	0.12	0.20	0.20
BUSINESS INCOME TAX	0.06	0.06	0.06	0.06	0.06
DOMESTIC PROD. TAX (INCL. VAT)	0.19	0.19	0.19	0.19	0.19
IMPORT TAX	0.20	0.20	0.20	0.20	0.20
NATIONAL INSURANCE TAX	0.13	0.13	0.13	0.13	0.13
WAGE TAX	0.14	0.14	0.14	0.14	0.14
TAXES ON OTHER INCOME	0.13	0.13	0.13	0.13	0.13
(PERCENT CHANGE)					
*** BALANCE OF PAYMENTS					
REAL GROWTH IN US AND EC		3.90	3.00	2.00	3.50
DOLLAR PRICE OF IMPORTS	-2.18	3.87	4.85	4.28	7.17
DOLLAR PRICE OF OIL	-13.77	0.00	0.00	0.00	5.20
WORLD INTEREST RATE	9.20	8.80	9.10	8.60	8.60
EXCHANGE RATE (LEVEL)	56.21	228.29	1086.73	5719.00	31833.98
(BILLIONS OF US DOLLARS)					
FOREIGN DEBT REPAYMENTS	0.97	1.25	1.45	1.70	1.82
DIRECT DEFENSE IMPORT PAYMENTS	1.27	2.26	2.18	2.07	2.14
DIRECT DEFENSE IMPORTS	1.03	1.76	1.85	2.52	2.89
NET FOREIGN BORROWING BY GOVT.	2.23	2.17	2.05	2.72	3.03
TOTAL CROSS CAP FLOW (NOT FMS)	3.24	5.68	6.24	6.79	7.36
US ECONOMIC ASSISTANCE	1.50	1.10	1.10	1.10	1.10
US FMS	1.00	1.63	1.40	1.40	1.40

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ISRAEL
DETAILED COMPONENTS OF REAL GNP

(BILLIONS OF 1980 SHEKELS)

	1983	1984	1985	1986	1987
PRIVATE CONSUMPTION	80.35	83.79	90.10	95.96	99.93
PERCENT CHANGE	7.05	4.29	7.54	6.50	4.14
TOTAL INVESTMENT	27.36	26.60	29.68	24.31	22.42
PERCENT CHANGE	5.92	-2.79	-3.46	-5.34	-7.76
COMPONENTS OF INVESTMENT					
PRIVATE NONRESIDENTIAL	14.58	13.58	13.10	11.76	10.00
PERCENT CHANGE	21.78	-6.84	-3.60	-10.16	-14.97
PRIVATE RESIDENTIAL	6.98	6.40	6.34	6.52	6.57
PERCENT CHANGE	-4.56	-8.38	-0.95	2.93	0.74
SHIPS AND PLANES	0.46	0.51	0.46	0.41	0.39
PERCENT CHANGE	57.92	10.00	-10.00	-10.00	-5.00
PRIVATE INVENTORY	-0.83	-0.02	0.05	0.03	0.03
PERCENT CHANGE	1791.33	-97.58	-350.00	-40.00	0.00
GOVERNMENT NONRESIDENTIAL	4.48	4.48	4.26	4.17	4.09
PERCENT CHANGE	8.01	0.00	-5.00	-2.00	-2.00
GOVERNMENT RESIDENTIAL	1.68	1.65	1.49	1.41	1.34
PERCENT CHANGE	-21.56	-2.00	-10.00	-5.00	-5.00
GOVERNMENT CONSUMPTION	35.38	39.77	40.30	43.44	44.58
PERCENT CHANGE	-4.24	12.39	1.35	7.78	2.62
COMPONENTS OF GOVERNMENT CONSUMPTION					
DOMESTIC NONMILITARY	12.84	13.22	13.35	13.49	13.62
PERCENT CHANGE	0.78	3.00	1.00	1.00	1.00
TOTAL MILITARY	22.56	26.54	26.95	29.95	30.96
PERCENT CHANGE	-6.75	17.64	1.53	11.14	3.35
FOREIGN MILITARY	5.73	9.19	9.23	12.05	12.87
PERCENT CHANGE	-33.54	60.44	0.52	30.53	6.80
DOMESTIC MILITARY	17.35	17.87	18.23	18.41	18.59
PERCENT CHANGE	6.94	3.00	2.00	1.00	1.00
DEFENSE SALES	0.51	0.51	0.51	0.51	0.51
PERCENT CHANGE	-20.31	0.00	0.00	0.00	0.00

COMPONENTS OF FOREIGN TRADE SECTOR

EXPORTS	51.38	54.12	56.63	58.50	61.49
PERCENT CHANGE	2.24	5.32	4.65	3.29	5.12
IMPORTS	80.98	88.50	92.94	98.51	101.93
PERCENT CHANGE	5.65	9.29	5.01	6.00	3.47
COMPONENTS OF IMPORTS					
CIVILIAN IMPORTS	62.02	65.78	69.44	72.14	74.40
PERCENT CHANGE	8.62	6.06	5.56	3.88	3.14
SHIPS AND PLANES	0.46	0.51	0.46	0.41	0.39
PERCENT CHANGE	57.92	10.00	-10.00	-10.00	-5.00
DIRECT DEFENSE IMPORTS	4.76	7.63	7.67	10.02	10.70
PERCENT CHANGE	-35.66	60.44	0.52	30.53	6.80
IMPORTS TAXES	13.74	14.58	15.37	15.95	16.44
PERCENT CHANGE	15.80	6.11	5.42	3.78	3.09
NET FACTOR IMPORTS	5.76	5.44	5.61	5.83	5.73
PERCENT CHANGE	12.23	-5.60	3.04	3.92	-1.61

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SCENARIO 4: NO INCREASE IN KIAL BOI CREDIT TO PRIV. SECTOR 85-87
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ISRAEL
MAIN ECONOMIC INDICATORS, 1983-1987

(BILLIONS OF 1980 SHEKELS)

	1983	1984	1985	1986	1987
GROSS NATIONAL PRODUCT	107.73	110.33	114.18	117.87	120.76
PERCENT CHANGE	1.3%	2.4%	3.4%	3.2%	2.4%
GNP DEFLATOR	12.62	53.24	265.72	1458.24	8699.04
PERCENT CHANGE	150.09	321.82	399.12	448.78	496.55
CAPACITY UTILIZATION RATE	90.88	92.46	95.17	97.79	99.92
UNEMPLOYMENT RATE	4.49	5.96	6.97	7.73	8.54
COMPONENTS OF AGGREGATE DEMAND					
PRIVATE CONSUMPTION	80.35	83.79	90.10	95.96	99.93
PERCENT CHANGE	7.05	4.29	7.54	6.50	4.14
TOTAL INVESTMENT	27.36	26.60	25.68	24.31	22.42
PERCENT CHANGE	5.92	-2.79	-3.46	-5.34	-7.76
GOVERNMENT CONSUMPTION	35.38	39.77	40.30	43.44	44.58
PERCENT CHANGE	-4.24	12.39	1.35	7.78	2.62
EXPORTS	51.38	54.12	56.63	58.50	61.49
PERCENT CHANGE	2.2%	5.32	4.65	3.29	5.12
IMPORTS	80.98	88.50	92.94	98.51	101.93
PERCENT CHANGE	5.65	9.29	5.01	6.00	3.47
NET FACTOR IMPORTS	5.76	5.44	5.61	5.83	5.73

BALANCE OF PAYMENTS

(BILLIONS OF DOLLARS)

CIVILIAN GOODS AND SERVICES					
EXPORTS	9.95	10.68	11.75	12.75	14.50
OF WHICH: DIAMONDS	1.21	1.39	1.58	1.72	2.00
IMPORTS	13.96	15.22	16.79	18.20	20.10
OF WHICH: FUTIS	1.61	1.63	1.67	1.71	1.83
DIAMONDS	0.85	0.98	1.12	1.23	1.43
INTEREST	2.16	2.22	2.42	2.63	2.89
CIVILIAN GOODS AND SERVICES DEFICIT	-4.01	-4.54	-5.04	-5.45	-5.59
DIRECT DEFENSE IMPORTS	1.03	1.76	1.85	2.52	2.89
DEFENSE IMPORT PAYMENTS	1.27	2.26	2.18	2.07	2.14
US FINANCED PAYMENTS	1.00	1.63	1.40	1.40	1.40
NON-US FINANCED IMPORTS	0.27	0.63	0.78	0.68	0.74
DEBT REPAYMENT	0.97	1.25	1.45	1.70	1.82
TOTAL DEBT	23.12	25.99	28.35	31.02	34.12
FINANCIAL GAP	-5.26	-6.42	-7.26	-7.82	-8.16
EXTERNAL FUND	3.24	5.68	6.24	6.79	7.36
OF WHICH US SSA	1.50	1.10	1.10	1.10	1.10
BALANCE	-0.47	-0.74	-1.03	-1.03	-0.80

DSET: SCEN4
MODEL: ISSI P84

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AMERICAN
NATIONALSSCENARIO 3: TARGET DECLINE IN 85 IN DOMESTIC MILITARY AND NON-MILITARY SPENDING
9/17/84

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ISRAEL
ASSUMED VALUES FOR EXOGENOUS VARIABLES

	1983	1984	1985	1986	1987
(BILLIONS OF 1980 SHEKELS)					
*** GOVERNMENT VARIABLES					
DOMESTIC NONMILITARY EXPEND.	12.84	13.22	12.23	12.23	12.23
PERCENT CHANGE	0.78	3.00	-7.50	0.00	0.00
DOMESTIC MILITARY EXPEND.	17.35	17.87	16.53	16.53	16.53
PERCENT CHANGE	6.94	3.00	-7.50	0.00	0.00
GOVT RESIDENTIAL INVEST.	1.68	1.65	1.49	1.41	1.34
PERCENT CHANGE	-21.56	-2.00	-10.00	-5.00	-5.00
GOVT NONRESIDENTIAL INVEST.	4.48	4.48	4.26	4.17	4.09
PERCENT CHANGE	8.01	0.00	-5.00	-2.00	-2.00
(BILLIONS OF 1980 SHEKELS)					
NET TRANSFERS TO PRIVATE SECT.	20.44	20.44	20.44	20.44	20.44
PERCENT CHANGE	0.00	0.00	0.00	0.00	0.00
NET CREDIT ABSORP. BY GOVT	-25.60	-20.00	-10.00	-5.00	5.00
PERCENT CHANGE	-21.89	-50.00	-50.00	-200.00	
PUBLIC SECTOR WAGES	22.24	23.13	24.06	25.02	26.02
PERCENT CHANGE	4.00	4.00	4.00	4.00	4.00
BOI CREDIT TO PRIVATE SECTOR	6.54	6.70	6.85	7.02	7.19
PERCENT CHANGE	2.42	2.20	2.46	2.37	
(PERCENT)					
*** TAX RATES					
DEFENSE IMPORT TAXES	0.20	0.20	0.20	0.20	0.20
INVENTORY SURTAX	-0.01	-0.29	0.12	0.19	0.19
BUSINESS INCOME TAX	0.06	0.06	0.06	0.06	0.06
DOMESTIC PROD. TAX (INCL. VAT)	0.19	0.19	0.19	0.19	0.19
IMPORT TAX	0.20	0.20	0.20	0.20	0.20
NATIONAL INSURANCE TAX	0.13	0.13	0.13	0.13	0.13
WAGE TAX	0.14	0.14	0.14	0.14	0.14
TAXES ON OTHER INCOMES	0.13	0.13	0.13	0.13	0.13
(PERCENT CHANGE)					
*** BALANCE OF PAYMENTS					
REAL GROWTH IN US AND EC		3.90	3.00	2.00	3.50
DOLLAR PRICE OF IMPORTS	-2.18	3.87	4.85	4.28	7.17
DOLLAR PRICE OF OIL	-13.77	0.00	0.00	0.00	5.20
WORLD INTEREST RATE	9.20	8.80	9.10	8.60	8.60
EXCHANGE RATE (LEV)	56.21	228.46	1120.80	6225.75	37460.31
(BILLIONS OF US DOLLARS)					
FOREIGN DEBT REPAYMENTS	0.97	1.25	1.05	1.70	1.82
DIRECT DEFENSE IMPORT PAYMENTS	1.27	2.26	2.18	2.07	2.14
DIRECT DEFENSE IMPORTS	1.03	1.76	1.85	2.52	2.89
NET FOREIGN BORROWING BY GOVT	2.23	2.17	2.05	2.72	3.03
TOTAL GROSS CAPITAL FLOW (NONIMS)	3.24	5.68	6.20	6.79	7.36
US ECONOMIC ASSISTANCE	1.50	1.10	1.10	1.10	1.10
US FMS	1.00	1.63	1.40	1.40	1.40

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CN NATIONALSSCENARIO 3: LARGE DECLINE IN 85 IN DOMESTIC MILITARY AND NON-MILITARY SPENDING
9/17/84ISRAEL
DETAILED COMPONENTS OF REAL GNP

(BILLIONS OF 1980 SHEKELS)

	1983	1984	1985	1986	1987
PRIVATE CONSUMPTION	80.35	83.80	90.23	96.12	100.70
PERCENT CHANGE	7.05	4.30	7.67	6.52	4.77
TOTAL INVESTMENT	27.36	26.60	24.87	22.56	20.74
PERCENT CHANGE	5.92	-2.79	-6.51	-9.30	-8.05
COMPONENTS OF INVESTMENT					
PRIVATE NONRESIDENTIAL	14.58	13.58	12.27	10.50	8.52
PERCENT CHANGE	21.78	-6.88	-9.63	-14.45	-18.86
PRIVATE RESIDENTIAL	6.98	6.40	6.35	6.04	6.38
PERCENT CHANGE	-4.56	-8.30	-0.85	-4.94	5.62
SHIPS AND PLANES	0.46	0.51	0.46	0.41	0.39
PERCENT CHANGE	57.92	10.00	-10.00	-10.00	-5.00
PRIVATE INVENTORY	-0.83	-0.02	0.05	0.03	0.03
PERCENT CHANGE	1791.33	-97.58	-350.00	-40.00	0.00
GOVERNMENT NONRESIDENTIAL	4.48	4.48	4.26	4.17	4.09
PERCENT CHANGE	8.01	0.00	-5.00	-2.00	-2.00
GOVERNMENT RESIDENTIAL	1.68	1.65	1.49	1.41	1.34
PERCENT CHANGE	-21.56	-2.00	-10.00	-5.00	-5.00
GOVERNMENT CONSUMPTION	35.38	39.17	37.48	40.30	41.12
PERCENT CHANGE	-4.24	12.39	-5.74	7.52	2.03
COMPONENTS OF GOVERNMENT CONSUMPTION					
DOMESTIC NONMILITARY	12.84	13.22	12.23	12.23	12.23
PERCENT CHANGE	0.78	3.00	-7.50	0.00	0.00
TOTAL MILITARY	22.56	26.54	25.25	28.07	28.89
PERCENT CHANGE	-6.75	17.64	-4.87	11.17	2.92
FOREIGN MILITARY	5.73	9.19	9.23	12.05	12.87
PERCENT CHANGE	-33.54	60.44	0.52	30.53	6.80
DOMESTIC MILITARY	17.35	17.87	16.53	16.53	16.53
PERCENT CHANGE	6.94	3.00	-7.50	0.00	0.00
DIRECT TRADE	0.51	0.51	0.51	0.51	0.51
PERCENT CHANGE	-20.31	0.00	0.00	0.00	0.00

COMPONENTS OF FOREIGN TRADE SECTOR

EXPORTS	51.38	54.12	56.53	58.27	61.14
PERCENT CHANGE	2.24	5.32	4.46	3.08	4.92
IMPORTS	80.98	88.51	90.72	95.83	99.60
PERCENT CHANGE	5.69	9.30	2.50	5.63	3.94
COMPONENTS OF IMPORTS					
CIVILIAN IMPORTS	62.02	69.79	67.62	69.94	72.19
PERCENT CHANGE	8.62	6.07	2.78	3.42	3.65
SHIPS AND PLANES	0.46	0.51	0.46	0.41	0.39
PERCENT CHANGE	57.92	10.00	-10.00	-10.00	-5.00
DIRECT DEFENSIVE IMPORTS	4.76	7.63	7.67	10.02	10.70
PERCENT CHANGE	-35.66	60.44	0.52	30.53	6.80
IMPORTS TAXES	13.74	14.58	14.97	15.46	16.02
PERCENT CHANGE	15.80	6.11	2.67	3.32	3.59
NET FACTOR IMPORTS	5.76	5.44	5.63	5.88	5.82
PERCENT CHANGE	12.23	-5.59	3.48	4.43	-0.95

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SCENARIO 3: LARGE DECLINE IN 85 IN DOMESTIC MILITARY AND NON-MILITARY SPENDING
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ISRAEL
MAIN ECONOMIC INDICATORS, 1983-1987

(BILLIONS OF 1980 SHEKELS)

	1983	1984	1985	1986	1987
GROSS NATIONAL PRODUCT	107.73	110.34	112.76	115.54	118.27
PERCENT CHANGE	1.34	2.42	2.20	2.46	2.37
GNP DEFULATOR	12.62	53.28	274.05	1587.45	10236.51
PERCENT CHANGE	150.09	322.14	414.39	479.25	544.84
CAPACITY UTILIZATION RATE	90.88	92.47	93.99	95.99	98.19
UNEMPLOYMENT RATE	4.49	5.96	7.11	8.18	9.22
COMPONENTS OF AGGREGATE DEMAND					
PRIVATE CONSUMPTION	80.35	83.80	90.23	96.12	100.70
PERCENT CHANGE	7.05	4.30	7.67	6.52	4.77
TOTAL INVESTMENT	27.36	26.60	24.87	22.56	20.74
PERCENT CHANGE	5.92	-2.79	-6.51	-9.30	-8.05
GOVERNMENT CONSUMPTION	35.38	39.77	37.48	40.30	41.12
PERCENT CHANGE	-4.24	12.39	-5.74	7.52	2.03
EXPORTS	51.38	54.12	56.53	58.27	61.14
PERCENT CHANGE	2.24	5.32	4.46	3.08	4.92
IMPORTS	80.98	88.51	90.72	95.83	99.60
PERCENT CHANGE	5.65	9.30	2.50	5.63	3.94
NET FACTOR IMPORTS	5.76	5.44	5.63	5.88	5.82

BALANCE OF PAYMENTS

(BILLIONS OF DOLLARS)

CIVILIAN GOODS AND SERVICES					
EXPORTS	9.95	10.68	11.71	12.66	14.34
OF WHICH: DIAMONDS	1.21	1.39	1.57	1.72	1.99
IMPORTS	13.96	15.22	16.42	17.73	19.66
OF WHICH: FUELS	1.61	1.63	1.66	1.68	1.80
DIAMONDS	0.85	0.98	1.12	1.22	1.42
INTEREST	2.16	2.22	2.42	2.63	2.89
CIVILIAN GOODS AND SERVICES DEFICIT	-4.01	-4.54	-4.71	-5.07	-5.32
DIRECT DEFENSE IMPORTS	1.03	1.76	1.85	2.52	2.89
DEFENSE IMPORT PAYMENTS	1.27	2.26	2.18	2.07	2.14
US FINANCED PAYMENTS	1.00	1.63	1.40	1.40	1.40
NON-US FINANCED IMPORTS	0.27	0.63	0.78	0.68	0.74
DEBT REPAYMENTS	0.97	1.25	1.45	1.70	1.82
TOTAL DEBT	23.12	25.99	28.35	31.02	34.12
FINANCIAL GAP	-5.26	-6.42	-6.93	-7.45	-7.89
EXTERNAL FUND	3.24	5.68	6.24	6.79	7.36
OF WHICH US SSA	1.50	1.10	1.10	1.10	1.10
BALANCE	-0.47	-0.74	-0.70	-0.65	-0.53

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9/17/84ISRAEL
ASSUMED VALUES FOR EXOGENOUS VARIABLES

	1983	1984	1985	1986	1987
(BILLIONS OF 1980 SHEKELS)					
*** GOVERNMENT VARIABLES					
DOMESTIC NONMILITARY EXPEND.	12.84	13.22	12.96	12.70	12.44
PERCENT CHANGE	0.78	3.00	-2.00	-2.00	-2.00
DOMESTIC MILITARY EXPEND.	17.35	17.87	17.51	17.16	16.82
PERCENT CHANGE	6.94	3.00	-2.00	-2.00	-2.00
GOVT RESIDENTIAL INVEST.	1.68	1.65	1.49	1.41	1.34
PERCENT CHANGE	-21.56	-2.00	-10.00	-5.00	-5.00
GOVT NONRESIDENTIAL INVEST.	4.48	4.48	4.26	4.17	4.09
PERCENT CHANGE	8.01	0.00	-5.00	-2.00	-2.00
(BILLIONS OF 1980 SHEKELS)					
NET TRANSFERS TO PRIVATE SECT.	20.44	20.44	20.44	20.44	20.44
PERCENT CHANGE	0.00	0.00	0.00	0.00	0.00
NET CREDIT ABSORP. BY GOVT	-25.60	-20.00	-10.00	-5.00	5.00
PERCENT CHANGE	-21.89	-50.00	-50.00	-200.00	-200.00
PUBLIC SECTOR WAGES	22.24	23.13	24.06	25.02	26.02
PERCENT CHANGE	4.00	4.00	4.00	4.00	4.00
BOI CREDIT TO PRIVATE SECTOR	6.54	6.70	6.90	7.08	7.22
PERCENT CHANGE	2.42	2.99	2.59	1.92	1.92
(PERCENT)					
*** TAX RATES					
DEFENSE IMPORT TAXES	0.20	0.20	0.20	0.20	0.20
INVENTORY SURTAX	-0.01	-0.29	0.12	0.19	0.19
BUSINESS INCOME TAX	0.06	0.06	0.06	0.06	0.06
DOMESTIC PROD. TAX (INCL. VAT)	0.19	0.19	0.19	0.19	0.19
IMPORT TAX	0.20	0.20	0.20	0.20	0.20
NATIONAL INSURANCE TAX	0.13	0.13	0.13	0.13	0.13
WAGE TAX	0.14	0.14	0.14	0.14	0.14
TAXES ON OTHER INCOME	0.13	0.13	0.13	0.13	0.13
(PERCENT CHANGE)					
*** BALANCE OF PAYMENTS					
REAL GROWTH IN US AND EC		3.90	3.00	2.00	3.50
DOLLAR PRICE OF IMPORTS	-2.18	3.87	4.85	4.28	7.17
DOLLAR PRICE OF OIL	-13.77	0.00	0.00	0.00	5.20
WORLD INTEREST RATE	9.20	8.80	9.10	8.60	8.60
EXCHANGE RATE (LEVEL)	56.21	228.46	1102.13	5979.89	35168.51
(BILLIONS OF US DOLLARS)					
FOREIGN DEBT REPAYMENTS	0.97	1.25	1.45	1.70	1.82
DIRECT DEFENSE IMPORT PAYMENTS	1.27	2.26	2.18	2.07	2.14
DIRECT DEFENSE IMPORTS	1.03	1.76	1.85	2.52	2.89
NET FOREIGN BORROWING BY GOVT.	2.23	2.17	2.05	2.72	3.03
TOTAL GROSS CAP FLOW (NOT FMS)	3.24	5.68	6.24	6.79	7.36
US ECONOMIC ASSISTANCE	1.50	1.10	1.10	1.10	1.10
US FMS	1.00	1.63	1.40	1.40	1.40

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MODEL: ISSEP84T

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SCENARIO 2: SLOW DECLINE IN DOMESTIC MILITARY AND NON-MILITARY SPENDING
9/17/84

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ISRAEL
DETAILED COMPONENTS OF REAL GNP

(BILLIONS OF 1980 SHEKELS)

	1983	1984	1985	1986	1987
PRIVATE CONSUMPTION	80.35	83.80	90.18	96.10	100.42
PERCENT CHANGE	7.05	4.30	7.62	6.56	4.50
TOTAL INVESTMENT	27.36	26.60	25.36	23.39	21.03
PERCENT CHANGE	5.92	-2.79	-4.67	-7.76	-10.11
COMPONENTS OF INVESTMENT					
PRIVATE NONRESIDENTIAL	14.58	13.58	12.76	11.02	8.81
PERCENT CHANGE	21.78	-6.88	-6.04	-13.63	-20.08
PRIVATE RESIDENTIAL	6.98	6.40	6.35	6.35	6.37
PERCENT CHANGE	-4.56	-8.30	-0.82	-0.06	0.35
SHIPS AND PLANES	0.46	0.51	0.46	0.41	0.39
PLRCLNT CHANGE	57.92	10.00	-10.00	-10.00	-5.00
PRIVATE INVNTORY	-0.83	-0.02	0.05	0.03	0.03
PERCENT CHANGE	1791.33	-97.58	-350.00	-40.00	0.00
GOVERNMENT NONRESIDENTIAL	4.48	4.48	4.26	4.17	4.09
PERCENT CHANGE	8.01	0.00	-5.00	-2.00	-2.00
GOVERNMENT RESIDENTIAL	1.68	1.65	1.49	1.41	1.34
PERCENT CHANGE	-21.56	-2.00	-10.00	-5.00	-5.00
GOVERNMENT CONSUMPTION	35.38	39.77	39.19	41.40	41.62
PERCENT CHANGE	-4.21	12.39	-1.44	5.64	0.54
COMPONENTS OF GOVERNMENT CONSUMPTION					
DOMESTIC NONMILITARY	12.84	13.22	12.96	12.70	12.44
PERCENT CHANGE	0.78	3.00	-2.00	-2.00	-2.00
TOTAL MILITARY	22.56	26.54	26.24	28.70	29.18
PERCENT CHANGE	-6.75	17.64	-1.17	9.41	1.66
FOREIGN MILITARY	5.73	9.19	9.23	12.05	12.87
PERCENT CHANGE	-33.54	60.44	0.52	30.53	6.80
DOMESTIC MILITARY	17.35	17.87	17.51	17.16	16.82
PERCENT CHANGE	6.91	3.00	-2.00	-2.00	-2.00
DEFENSE SALES	0.51	0.51	0.51	0.51	0.51
PERCENT CHANGE	-20.31	0.00	0.00	0.00	0.00

COMPONENTS OF FOREIGN TRADE SECTOR

EXPORTS	51.38	54.12	56.59	58.38	61.25
PERCENT CHANGE	2.21	5.32	4.97	3.16	4.93
IMPORTS	80.98	88.51	92.08	96.84	99.73
PERCENT CHANGE	5.65	9.30	4.03	5.18	2.98
COMPONENTS OF IMPORTS					
CIVILIAN IMPORTS	62.02	65.79	68.73	70.77	72.60
PERCENT CHANGE	8.62	6.07	4.48	2.96	2.58
SHIPS AND PLANES	0.46	0.51	0.46	0.41	0.39
PERCENT CHANGE	57.92	10.00	-10.00	-10.00	-5.00
DIRECT DEFENSE IMPORTS	4.76	7.63	7.67	10.02	10.70
PERCENT CHANGE	-35.66	60.44	0.52	30.53	6.80
IMPORTS TAXES	13.71	14.58	15.21	15.65	16.04
PERCENT CHANGE	15.80	6.11	4.35	2.86	2.53
NET FACTOR IMPORTS	5.76	5.44	5.62	5.86	5.79
PERCENT CHANGE	12.23	-5.59	3.23	4.25	-1.05

DSET: SCEN2
MODEL ISSEP84F

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SCENARIO 2: SLOW DECLINE IN DOMESTIC MILITARY AND NON-MILITARY SPENDING
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ISRAEL
MAIN ECONOMIC INDICATORS, 1983-1987

(BILLIONS OF 1980 SHEKELS)

	1983	1984	1985	1986	1987
GROSS NATIONAL PRODUCT	107.73	110.34	113.63	116.57	118.81
PERCENT CHANGE	1.34	2.42	2.99	2.59	1.92
GNP DEFlator	12.62	53.28	269.49	1524.76	9610.24
PERCENT CHANGE	150.09	322.14	405.82	465.80	530.28
CAPACITY UTILIZATION RATE	90.88	92.47	94.72	96.17	98.47
UNEMPLOYMENT RATE	4.49	5.96	7.02	7.94	8.96
COMPONENTS OF AGGREGATE DEMAND					
PRIVATE CONSUMPTION	80.35	83.80	90.18	96.10	100.42
PERCENT CHANGE	7.05	4.30	7.62	6.56	4.50
TOTAL INVESTMENT	27.36	26.60	25.36	23.39	21.03
PERCENT CHANGE	5.92	-2.79	-4.67	-7.76	-10.11
GOVERNMENT CONSUMPTION	35.38	39.77	39.19	41.40	41.62
PERCENT CHANGE	-4.24	12.39	-1.44	5.64	0.54
EXPORTS	51.38	54.12	56.59	58.38	61.25
PERCENT CHANGE	2.24	5.32	4.57	3.16	4.93
IMPORTS	80.98	88.51	92.08	96.84	99.73
PERCENT CHANGE	5.65	9.30	4.03	5.18	2.98
NET FACTOR IMPORTS	5.76	5.44	5.62	5.86	5.79

BALANCE OF PAYMENTS

(BILLIONS OF DOLLARS)

CIVILIAN GOODS AND SERVICES					
EXPORTS	9.95	10.68	11.73	12.70	14.39
OF WHICH: DIAMONDS	1.21	1.39	1.58	1.72	1.99
IMPORTS	13.96	15.22	16.64	17.90	19.68
OF WHICH: FUELS	1.61	1.63	1.67	1.69	1.81
DIAMONDS	0.85	0.98	1.12	1.22	1.42
INTEREST	2.16	2.22	2.42	2.63	2.89
CIVILIAN GOODS AND SERVICES DEFICIT	-4.01	-4.54	-4.91	-5.21	-5.29
DIRECT DEFENSE IMPORTS	1.03	1.76	1.85	2.52	2.89
DEFENSE IMPORT PAYMENTS	1.27	2.26	2.18	2.07	2.14
US FINANCED PAYMENTS	1.00	1.63	1.40	1.40	1.40
NON-US FINANCED IMPORTS	0.27	0.63	0.78	0.68	0.74
DEBT REPAYMENT	0.97	1.25	1.45	1.70	1.82
TOTAL DEBT	23.12	25.99	28.35	31.02	34.12
FINANCIAL GAP	-5.26	-6.42	-7.14	-7.58	-7.86
EXTERNAL FUND	3.24	5.68	6.24	6.79	7.36
OF WHICH US SSA	1.50	1.10	1.10	1.10	1.10
BALANCE	-0.47	-0.74	-0.90	-0.79	-0.50

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MOD1: ISSIPB4I

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CONFIDENTIALSCENARIO 1: DECLINE IN REAL WAGL IN 85, 86; CONSTANT IN 87
9/17/84

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ISRAEL
ASSUMED VALUES FOR EXOGENOUS VARIABLES

	1983	1984	1985	1986	1987
(BILLIONS OF 1980 SHEKELS)					
*** GOVERNMENT VARIABLES					
DOMESTIC NONMILITARY EXPEND.	12.84	13.22	13.35	13.49	13.62
PERCENT CHANGE	0.78	3.00	1.00	1.00	1.00
DOMESTIC MILITARY EXPEND.	17.35	17.87	18.23	18.41	18.59
PERCENT CHANGE	6.94	3.00	2.00	1.00	1.00
GOVT RESIDENTIAL INVEST.	1.68	1.65	1.49	1.41	1.34
PERCENT CHANGE	-21.56	-2.00	-10.00	-5.00	-5.00
GOVT NONRESIDENTIAL INVEST.	4.48	4.48	4.26	4.17	4.09
PERCENT CHANGE	8.01	0.00	-5.00	-2.00	-2.00
(BILLIONS OF 1980 SHEKELS)					
NET TRANSFERS TO PRIVATE SECT.	20.44	20.44	20.44	20.44	20.44
PERCENT CHANGE	0.00	0.00	0.00	0.00	0.00
NET CREDIT ABSORP. BY GOVT	-25.60	-20.00	-10.00	-5.00	5.00
PERCENT CHANGE	-21.89	-50.00	-50.00	-200.00	
PUBLIC SECTOR WAGES	22.24	23.13	21.98	20.88	20.88
PERCENT CHANGE	4.00	-5.00	-5.00	-0.00	
BOI CRDIT TO PRIVATE SECTOR	6.54	6.70	6.91	7.08	7.26
PERCENT CHANGE	2.42	3.07	2.54	2.47	
(PERCENT)					
*** TAX RATES					
DEFENSE IMPORT TAXES	0.20	0.20	0.20	0.20	0.20
INVENTORY SURTAX	-0.01	-0.29	0.12	0.19	0.19
BUSINESS INCOME TAX	0.06	0.06	0.06	0.06	0.06
DOMESTIC PROD. TAX (INCL. VAT)	0.19	0.19	0.19	0.19	0.19
IMPORT TAX	0.20	0.20	0.20	0.20	0.20
NATIONAL INSURANCE TAX	0.13	0.13	0.13	0.13	0.13
WAGE TAX	0.14	0.14	0.14	0.14	0.14
TAXES ON OTHER INCOME	0.13	0.13	0.13	0.13	0.13
(PERCENT CHANGE)					
*** BALANCE OF PAYMENTS					
REAL GROWTH IN US AND EC		3.90	3.00	2.00	3.50
DOLLAR PRICE OF IMPORTS	-2.18	3.87	4.85	4.28	7.17
DOLLAR PRICE OF OIL	-13.77	0.00	0.00	0.00	5.20
WORLD INTEREST RATE	9.20	8.80	9.10	8.60	8.60
EXCHANGE RATE (LEVEL)	56.21	228.46	937.11	4333.39	25120.64
(BILLIONS OF US DOLLARS)					
FOREIGN DEBT REPAYMENTS	0.97	1.25	1.45	1.70	1.82
DIRECT DFLNSE. IMPORT PAYMNTS	1.27	2.26	2.18	2.07	2.14
DIRECT DFLNSE. IMPORTS	1.03	1.76	1.85	2.52	2.89
NET FOREIGN BORROWING BY GOVT.	2.23	2.11	2.05	2.72	3.03
TOTAL GROSS CAP FLOW (NOT FMS)	3.24	5.68	6.24	6.79	7.36
US ECONOMIC ASSISTANCE	1.50	1.10	1.10	1.10	1.10
US FMS	1.00	1.63	1.40	1.40	1.40

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SCENARIO 1: DECREASE IN REAL WAGE IN 85, 86; CONSTANT IN 87
9/17/84ISRAEL
DETAILED COMPONENTS OF REAL GNP

(BILLIONS OF 1980 SHEKELS)

	1983	1984	1985	1986	1987
PRIVATE CONSUMPTION	80.35	83.80	87.06	90.95	97.49
PERCENT CHANGE	7.05	4.30	3.89	4.47	7.19
TOTAL INVESTMENT	27.36	26.60	27.25	25.89	22.17
PERCENT CHANGE	5.92	-2.79	2.44	-5.00	-14.36
COMPONENTS OF INVESTMENT					
PRIVATE NONRESIDENTIAL	14.58	13.58	14.44	13.02	9.45
PERCENT CHANGE	21.78	-6.88	6.33	-9.82	-27.45
PRIVATE RESIDENTIAL	6.98	6.40	6.56	6.85	6.88
PERCENT CHANGE	-4.56	-8.30	2.51	4.28	0.45
SHIPS AND PLANES	0.46	0.51	0.46	0.41	0.39
PERCENT CHANGE	57.92	10.00	-10.00	-10.00	-5.00
PRIVATE INVENTORY	-0.83	-0.02	0.05	0.03	0.03
PERCENT CHANGE	1/91.33	-97.58	-350.00	-40.00	0.00
GOVERNMENT NONRESIDENTIAL	4.48	4.48	4.26	4.17	4.09
PERCENT CHANGE	8.01	0.00	-5.00	-2.00	-2.00
GOVERNMENT RESIDENTIAL	1.68	1.65	1.49	1.41	1.34
PERCENT CHANGE	-21.56	-2.00	-10.00	-5.00	-5.00
GOVERNMENT CONSUMPTION	35.38	39.77	40.30	43.44	44.58
PERCENT CHANGE	-4.24	12.39	1.35	7.78	2.62
COMPONENTS OF GOVERNMENT CONSUMPTION					
DOMESTIC NONMILITARY	12.84	13.22	13.35	13.49	13.62
PERCENT CHANGE	0.78	3.00	1.00	1.00	1.00
TOTAL MILITARY	22.56	26.50	26.95	29.95	30.96
PERCENT CHANGE	-6.75	17.64	1.53	11.14	3.35
FOREIGN MILITARY	5.73	9.19	9.23	12.05	12.87
PERCENT CHANGE	-33.54	60.44	0.52	30.53	6.80
DOMESTIC MILITARY	17.35	17.87	18.23	18.41	18.59
PERCENT CHANGE	6.91	3.00	2.00	1.00	1.00
DEFENSE SALES	0.51	0.51	0.51	0.51	0.51
PERCENT CHANGE	-20.31	0.00	0.00	0.00	0.00

COMPONENTS OF FOREIGN TRADE SECTOR

EXPORTS	51.38	54.12	56.87	58.76	61.56
PERCENT CHANGE	2.24	5.32	5.09	3.33	4.75
IMPORTS	80.98	88.51	92.29	96.74	100.57
PERCENT CHANGE	5.65	9.30	4.27	4.82	3.96
COMPONENTS OF IMPORTS					
CIVILIAN IMPORTS	62.02	65.79	68.91	70.68	73.29
PERCENT CHANGE	8.62	6.07	4.74	2.58	3.69
SHIPS AND PLANES	0.46	0.51	0.46	0.41	0.39
PERCENT CHANGE	57.92	10.00	-10.00	-10.00	-5.00
DIRECT DEFENSE IMPORTS	4.76	7.63	7.67	10.02	10.70
PERCENT CHANGE	-35.66	60.44	0.52	30.53	6.80
IMPORTS TAXES	13.74	14.98	15.25	15.63	16.19
PERCENT CHANGE	15.80	6.11	4.61	2.48	3.63
NET FACTOR IMPORTS	5.76	5.44	5.47	5.69	5.73
PERCENT CHANGE	12.23	-5.59	0.61	3.93	0.64

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SCENARIO 1: DECLINE IN REAL WAGE IN 85, 86; CONSTANT IN 87
9/17/84

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ISRAEL
MAIN ECONOMIC INDICATORS, 1983-1987

(BILLIONS OF 1980 SHEKELS)

	1983	1984	1985	1986	1987
GROSS NATIONAL PRODUCT	107.73	110.34	113.72	116.61	119.49
PERCENT CHANGE	1.31	2.42	3.07	2.54	2.47
GNP DEFLATOR	12.62	53.28	229.14	1104.93	6864.55
PERCENT CHANGE	150.09	322.14	330.08	382.21	521.26
CAPACITY UTILIZATION RATE	90.88	92.47	94.79	96.54	98.46
UNEMPLOYMENT RATE	4.49	5.96	7.02	7.93	8.88
COMPONENTS OF AGGREGATE DEMAND					
PRIVATE CONSUMPTION	80.35	83.80	87.06	90.95	97.49
PERCENT CHANGE	7.05	4.30	3.89	4.47	7.19
TOTAL INVESTMENT	27.36	26.60	27.25	25.89	22.17
PERCENT CHANGE	5.92	-2.79	2.44	-5.00	-14.36
GOVERNMENT CONSUMPTION	35.38	39.77	40.30	43.44	44.58
PERCENT CHANGE	-4.24	12.39	1.35	7.78	2.62
EXPORTS	51.38	54.12	56.87	58.76	61.56
PERCENT CHANGE	2.24	5.32	5.09	3.33	4.75
IMPORTS	80.98	88.51	92.29	96.74	100.57
PERCENT CHANGE	5.65	9.30	4.27	4.82	3.96
NET FACTOR IMPORTS	5.76	5.44	5.47	5.69	5.73

BALANCE OF PAYMENTS

(BILLIONS OF DOLLARS)

CIVILIAN GOODS AND SERVICES					
EXPORTS	9.95	10.68	11.97	12.98	14.52
OF WHICH: DIAMONDS	1.21	1.39	1.59	1.74	1.99
IMPORTS	13.96	15.22	16.68	17.89	19.84
OF WHICH: TUINS	1.61	1.63	1.67	1.69	1.81
DIAMONDS	0.85	0.98	1.13	1.24	1.43
INTEREST	2.16	2.22	2.42	2.63	2.89
CIVILIAN GOODS AND SERVICES DEFICIT	-4.01	-4.54	-4.71	-4.90	-5.32
DIRECT DEFENSE IMPORTS	1.03	1.76	1.85	2.52	2.89
DEFENSE IMPORT PAYMENTS	1.27	2.26	2.18	2.07	2.14
US FINANCED PAYMENTS	1.00	1.63	1.40	1.40	1.40
NON-US FINANCED IMPORTS	0.27	0.63	0.78	0.68	0.74

DEBT REPAYMENT	0.97	1.25	1.45	1.70	1.82
TOTAL DEBT	23.12	25.99	28.35	31.02	34.12
FINANCIAL CAP	-5.26	-6.42	-6.94	-7.28	-7.89
EXTERNAL FUND	3.24	5.68	6.24	6.79	7.36
OF WHICH US SSA	1.50	1.10	1.10	1.10	1.10
BALANCE	-0.47	-0.74	-0.70	-0.48	-0.53

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ISRAEL
ASSUMED VALUES FOR EXOGENOUS VARIABLES

	1983	1984	1985	1986	1987
(BILLIONS OF 1980 SHEKELS)					
*** GOVERNMENT VARIABLES					
DOMESTIC NONMILITARY EXPEND.	12.84	13.22	13.35	13.49	13.62
PERCENT CHANGE	0.78	3.00	1.00	1.00	1.00
DOMESTIC MILITARY EXPEND.	17.35	17.87	18.23	18.41	18.59
PERCENT CHANGE	6.94	3.00	2.00	1.00	1.00
GOVT RESIDENTIAL INVEST.	1.68	1.65	1.49	1.41	1.34
PERCENT CHANGE	-21.56	-2.00	-10.00	-5.00	-5.00
GOVT NONRESIDENTIAL INVEST..	4.18	4.48	4.26	4.17	4.09
PERCENT CHANGE	8.01	0.00	-5.00	-2.00	-2.00
(BILLIONS OF 1980 SHEKELS)					
NET TRANSFERS TO PRIVATE SECT.	20.44	20.44	20.44	20.44	20.44
PERCENT CHANGE	0.00	0.00	0.00	0.00	0.00
NET CREDIT ABSORP. BY GOVT	-25.60	-20.00	-10.00	-5.00	5.00
PERCENT CHANGE	-21.89	-50.00	-50.00	-200.00	
PUBLIC SECTOR WAGES	22.24	23.13	24.06	25.02	26.02
PERCENT CHANGE	4.00	4.00	4.00	4.00	4.00
BOI CRDLIT TO PRIVATE SECTOR	6.54	6.70	6.94	7.16	7.34
PERCENT CHANGE	2.42	3.50	3.25	2.47	
(PERCENT)					
*** TAX RATES					
DEFENSE IMPORT TAXES	0.20	0.20	0.20	0.20	0.20
INVENTORY SURTAX	-0.01	-0.29	0.12	0.20	0.20
BUSINESS INCOME TAX	0.06	0.06	0.06	0.06	0.06
DOMESTIC PROD. TAX (INCL. VAT)	0.19	0.19	0.19	0.19	0.19
IMPORT TAX	0.20	0.20	0.20	0.20	0.20
NATIONAL INSURANCE TAX	0.13	0.13	0.13	0.13	0.13
WAGL TAX	0.14	0.14	0.14	0.14	0.14
TAXES ON OTHER INCOML	0.13	0.13	0.13	0.13	0.13
(PERCENT CHANGE)					
*** BALANCE OF PAYMENTS					
REAL GROWTH IN US AND EC		3.90	3.00	2.00	3.50
DOLLAR PRICE OF IMPORTS	-2.18	3.87	4.85	4.28	7.17
DOLLAR PRICE OF OIL	-13.77	0.00	0.00	0.00	5.20
WORLD INTEREST RATE	9.20	8.80	9.10	8.60	8.60
EXCHANGE RATE (LEVEL)	56.21	228.46	1089.92	5758.87	32271.60
(BILLIONS OF US DOLLARS)					
FOREIGN DEBT REPAYMLNIS	0.97	1.25	1.45	1.70	1.82
DIRECT DEFENSE IMPORT PAYMLNIS	1.27	2.26	2.18	2.07	2.14
DIRECT DEFENSE IMPORTS	1.03	1.76	1.85	2.52	2.89
NET FOREIGN BORROWING BY GOVT.	2.23	2.17	2.05	2.72	3.03
TOTAL GROSS CAP FLOW (NO1 FMS)	3.24	5.68	6.24	6.79	7.36
US ECONOMIC ASSISTANCE	1.50	1.10	1.10	1.10	1.10
US FMS	1.00	1.63	1.40	1.40	1.40

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BASILINE: CURRENT ECONOMIC TRENDS
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ISRAEL
DETAILED COMPONENTS OF REAL GNP

(BILLIONS OF 1980 SHEKELS)

	1983	1984	1985	1986	1987
PRIVATE CONSUMPTION	80.34	83.80	90.15	96.07	100.14
PERCENT CHANGE	7.05	4.30	7.58	6.56	4.24
TOTAL INVESTMENT	27.36	26.60	25.68	24.29	22.37
PERCENT CHANGE	5.92	-2.79	-3.48	-5.39	-7.93
COMPONENTS OF INVESTMENT					
PRIVATE NONRESIDENTIAL	14.58	13.58	13.07	11.72	9.92
PERCENT CHANGE	21.78	-6.88	-3.71	-10.36	-15.38
PRIVATE RESIDENTIAL	6.98	6.40	6.35	6.55	6.60
PERCENT CHANGE	-4.56	-8.30	-0.80	3.06	0.79
SHIPS AND PLANES	0.46	0.51	0.46	0.41	0.39
PERCENT CHANGE	57.92	10.00	-10.00	-10.00	-5.00
PRIVATE INVENTORY	-0.83	-0.02	0.05	0.03	0.03
PERCENT CHANGE	1791.33	-97.58	-350.00	-40.00	0.00
GOVERNMENT NONRESIDENTIAL	4.48	4.48	4.26	4.17	4.09
PERCENT CHANGE	8.01	0.00	-5.00	-2.00	-2.00
GOVERNMENT RESIDENTIAL	1.68	1.65	1.49	1.41	1.34
PERCENT CHANGE	-21.56	-2.00	-10.00	-5.00	-5.00
GOVERNMENT CONSUMPTION	35.38	39.77	40.30	43.44	44.58
PERCENT CHANGE	-4.24	12.39	1.35	7.78	2.62
COMPONENTS OF GOVERNMENT CONSUMPTION					
DOMESTIC NONMILITARY	12.84	13.22	13.35	13.49	13.62
PERCENT CHANGE	0.78	3.00	1.00	1.00	1.00
TOTAL MILITARY	22.56	26.54	26.95	29.95	30.96
PERCENT CHANGE	-6.75	17.64	1.53	11.14	3.35
FOREIGN MILITARY	5.73	9.19	9.23	12.05	12.87
PERCENT CHANGE	-33.54	60.44	0.52	30.53	6.80
DOMESTIC MILITARY	17.35	17.87	18.23	18.41	18.59
PERCENT CHANGE	6.94	3.00	2.00	1.00	1.00
DEFENSE SALARIES	0.51	0.51	0.51	0.51	0.51
PERCENT CHANGE	-20.31	0.00	0.00	0.00	0.00

COMPONENTS OF FOREIGN TRADE SECTOR

EXPORTS	51.38	54.12	56.63	58.49	61.48
PERCENT CHANGE	2.24	5.32	4.65	3.29	5.11
IMPORTS	80.98	88.51	92.96	98.56	102.00
PERCENT CHANGE	5.65	9.30	5.03	6.02	3.49
COMPONENTS OF IMPORTS					
CIVILIAN IMPORTS	62.02	65.79	69.46	72.17	74.46
PERCENT CHANGE	8.62	6.07	5.58	3.91	3.17
SHIPS AND PLANES	0.46	0.51	0.46	0.41	0.39
PERCENT CHANGE	57.92	10.00	-10.00	-10.00	-5.00
DEFENSE DILENSI IMPORTS	4.76	7.63	7.67	10.02	10.70
PERCENT CHANGE	-35.66	60.44	0.52	30.53	6.80
IMPORT TAXES	13.74	14.58	15.37	15.95	16.45
PERCENT CHANGE	15.80	6.11	5.44	3.80	3.11
NET FACTOR IMPORTS	5.76	5.44	5.61	5.83	5.74
PERCENT CHANGE	12.23	-5.59	3.07	3.96	-1.55

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BASLINE: CURRENT ECONOMIC TRENDS
9/17/84

ISRAEL
MAIN ECONOMIC INDICATORS, 1983-1987

(BILLIONS OF 1980 SHEKELS)

	1983	1984	1985	1986	1987
GROSS NATIONAL PRODUCT	107.73	110.34	114.19	117.90	120.82
PERCENT CHANGE	1.34	2.42	3.50	3.25	2.47
GNP DEFLEATOR	12.62	53.28	266.50	1468.40	8818.63
PERCENT CHANGE	150.09	322.13	400.22	450.99	500.56
CAPACITY UTILIZATION RATE	90.88	92.47	95.19	97.82	99.98
UNEMPLOYMENT RATE	4.49	5.96	6.97	7.73	8.53
COMPONENTS OF AGGREGATE DEMAND					
PRIVATE CONSUMPTION	80.34	83.80	90.15	96.07	100.14
PERCENT CHANGE	7.05	4.30	7.58	6.56	4.24
TOTAL INVESTMENT	27.36	26.60	25.68	24.29	22.37
PERCENT CHANGE	5.92	-2.79	-3.48	-5.39	-7.93
GOVERNMENT CONSUMPTION	35.38	39.77	40.30	43.44	44.58
PERCENT CHANGE	-4.21	12.39	1.35	7.78	2.62
EXPORTS	51.38	54.12	56.63	58.49	61.48
PERCENT CHANGE	2.24	5.32	4.65	3.29	5.11
IMPORTS	80.98	88.51	92.96	98.56	102.00
PERCENT CHANGE	5.65	9.30	5.03	6.02	3.49
NET FACTOR IMPORTS	5.76	5.44	5.61	5.83	5.74

BALANCE OF PAYMENTS

(BILLIONS OF DOLLARS)

CIVILIAN GOODS AND SERVICES					
EXPORTS	9.95	10.68	11.75	12.74	14.49
OF WHICH: DIAMONDS	1.21	1.39	1.58	1.72	1.99
IMPORTS	13.96	15.22	16.79	18.20	20.11
OF WHICH: FULLS	1.61	1.63	1.67	1.71	1.83
DIAMONDS	0.85	0.98	1.12	1.23	1.43
INTEREST	2.16	2.22	2.42	2.63	2.89
CIVILIAN GOODS AND SERVICES DEFICIT	-4.01	-4.54	-5.05	-5.46	-5.62
DIRECT DEFENSE IMPORTS	1.03	1.16	1.85	2.52	2.89
DEFENSE IMPORT PAYMENTS	1.27	2.26	2.18	2.07	2.14
US FINANCED PAYMENTS	1.00	1.63	1.40	1.40	1.40
NON-US FINANCED IMPORTS	0.27	0.63	0.78	0.68	0.74
DEBT REPAYMENT	0.97	1.25	1.45	1.70	1.82
TOTAL DEBT	23.12	25.99	28.35	31.02	34.12
FINANCIAL GAP	-5.26	-6.42	-7.27	-7.84	-8.18
EXTERNAL FUND	3.24	5.68	6.24	6.79	7.36
OF WHICH US SSA	1.50	1.10	1.10	1.10	1.10
BALANCE	-0.47	-0.74	-1.04	-1.04	-0.82

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